# Allocating Food Service Costs for Residential Child Care Institutions (RCCIs)

Residential Child Care Institutions (RCCIs) *must* apply one of two costing methods when allocating costs associated with operating their nutrition programs. These costs are reported annually on the *June* Claim for Reimbursement – School Nutrition Programs (CNFS 71-5). The methods as described below include Method A, Average Cost/Participation, which uses a costed menu and actual participation data, and Method B, Meal Equivalents, which uses meal equivalencies and actual participation data. The following text outlines each of these costing methods and how they should be applied when completing Part III (Cost Incurred) of the claim form:

## Item 23: Method A – Average Cost/Participation

The following text instructs claim preparers about calculating food costs under item 23 - Method A.

Twice a year, calculate the cost of a two-week menu and determine (a) the average per-meal breakfast food cost; (b) the average per-meal lunch food cost; and (c) the average per-meal supplement food cost.

Determine the number of eligible meals for each type of meal served (breakfast, lunch, or supplements) for the year. Determine total breakfast, total lunch, and total meal supplement food costs by multiplying the per-meal food cost times the number of eligible meals served. For example, for breakfasts, multiply the per-meal breakfast food cost times the number of eligible breakfasts served.

Determine the fair market value of federally donated food received (refer to the bill of lading) and calculate the amount used during the year.

Determine purchased food costs for breakfast, lunch, and meal supplements by adding the total breakfast food costs, total lunch food costs, and total meal supplement food costs together. Add any additional handling charges for USDA commodities (donated food) received during the year, and subtract the fair market value of donated food used. The result is the amount claimed on item 23 of the claim form. An example cost-to-participation calculation for food is as follows:

| | Average Food Cost/Meal | | Number of Meals For the Year | | Total Food Costs |
|---|---|---|---|---|---|
| Lunch (NSLP) | $2.00 | X | 2790 | = | $ 5,580 |
| Breakfast (SBP) | $1.50 | X | 2790 | = | $ 4,185 |
| Supplements | $ .75 | X | 1000 | = | $ 750 |
| | | | Total Purchased Food Costs | = | $10,515 |
| Fair Market Value | | | | | |
| Federally Donated Food | | | Beginning | = | $ 4,500 |
| | | | Plus Received | + | $ 900 |
| | | | Less Ending | - | $ 3,500 |
| | | | Equals Used | = | $ 1,900 |
| Total Purchased Food Costs | | | | | $10,515 |
| Add Handling Charges for Donated Food | | | | + | $ 100 |
| Subtract Fair Market Value of Donated Food | | | | - | ($ 1,900) |
| **Total Average Food Costs to be reported on Item 23 of claim form** | | | | = | **$ 8,715** |

**Item 24 – Labor – Method A:**

Once a year, conduct a two-week time study on food service employees reflecting hours worked for the reimbursable nutrition programs (National School Lunch, School Breakfast, or Meal Supplements programs) and total hours for that period. Determine the percentage of labor for the reimbursable programs by dividing the total hours worked in the food service program into the number of hours worked for the reimbursable programs. Determine total labor costs for the year. Include all allowable costs. Determine the total reimbursable labor costs for the year by multiplying total labor costs for the year times the percentage of labor for the reimbursable programs. The result is the amount claimed on item 24 of the claim form. An example cost of participation calculation for labor is as follows:

| | | |
|---|---|---|
| Hours Worked for Reimbursable Nutrition Programs (2-week time study period) | | 300 hours |
| Total Hours Worked in the food service program (2-week time study period) | | 400 hours |
| 300 / 400 = .75 (75% of the total labor is for NSLP, SBP, and Meal Supplements) | | .75 |
| | | |
| Total Labor Cost for the Year | | $4,000 |
| Percentage of Labor | X | .75 |
| **Total Average Labor Costs to be reported on Item 24 of claim form** | | $3,000 |

**Item 25 – Other – Method A**

Costs to be reported on item 25 include supplies, purchased services, equipment, and any other costs associated with the reimbursable nutrition programs that are not reportable under "Food" or "Labor." To determine the total cost of supplies used, start with the inventory balance for your food service program at the beginning of the year, add all applicable purchases made during the year, and subtract any inventory remaining at the end of the year. Determine the cost of purchased services for the year, and add this cost to the total cost of supplies used. Multiply this total by the percentage of labor calculated above.

Refer to page 31, Depreciation of Nonexpendable Food Service Equipment, to determine equipment depreciation costs. Multiply calculated equipment depreciation cost by the percentage of labor calculated above. An example calculation for Other costs is as follows:

| | Total Cost | | % of Labor | Average Cost |
|---|---|---|---|---|
| Total Supplies and Purchased Services | $800 | X | .75 | $ 600 |
| Total Equipment Depreciation | $500 | X | .75 | $ 375 |
| **Total Average "Other" Costs to Be Reported on Item 25 of Claim Form** | | | | $ 975 |

**Method B – Meal Equivalents**

Application of method B requires the assumptions that (1) the cost of two breakfasts equals the cost of one lunch; (2) the cost of one supper equals the cost of one lunch; and (3) the cost of four supplements equals the cost of one lunch. For method B, the share of total food service program costs attributed to each reimbursable program (National School Lunch, School Breakfast, or Supplements) is based on a comparison of the number of meals served for the specific reimbursable program to the total number of meals served for all the programs. This comparison establishes cost allocation percentages by reimbursable meal type that are applied to total costs for the food service program. This calculation produces the cost associated with the reimbursable meal programs.

To apply this method, determine the total number of adult and child breakfasts, lunches, meal supplements, and suppers served during the reporting period. Using assumptions described in (1), (2), and (3) above, calculate the "Lunch Equivalents" as follows: (i.e., 2 breakfasts = 1 lunch; 1 supper = 1 lunch; 4 supplements = 1 lunch)

| Meal Type | Actual # Served | Lunch Equivalent |
|---|---|---|
| Child Breakfasts | 200 | 100 |
| Child Lunches | 200 | 200 |
| Child Supplements | 200 | 50 |
| Adult Breakfasts | 20 | 10 |
| Adult Lunches | 20 | 20 |
| Suppers | 100 | 100 |

| Total Lunch Equivalent | 480 |
|---|---|

Using "Lunch Equivalent" counts, compute the cost allocation percentages for National School Lunch, School Breakfast, and Meal Supplements. This computation is accomplished by dividing the lunch equivalent meal counts by program type by the “Total Equivalent” as follows. Note that adult meals and suppers are not reimbursable.

| Meal Type | Actual Number Served | Lunch Equivalent | Reimbursable Meals | Calculate Cost Allocation | Cost Allocation |
|---|---|---|---|---|---|
| Child Breakfast | 200 | 100 | 100 | 100 ÷ 480 | .21 or 21% |
| Child Lunch | 200 | 200 | 200 | 200 ÷ 480 | .42 or 42% |
| Child Supplement | 200 | 50 | 50 | 50 ÷ 480 | .10 or 10% |
| Adult Breakfast | 20 | 10 | 0 | | |
| Adult Lunch | 20 | 20 | 0 | | |
| Supper | 100 | 100 | 0 | | |
| Total Equivalent | | 480 | | | |

Determine the total cost of purchased food, labor (direct and support), supplies and purchased services (direct and support), and equipment depreciation for food service. (For instructions on calculating equipment depreciation, see page 31, Depreciation of Nonexpendable Food Service Equipment.). By using the percentages calculated with the process described above, allocate food service costs among the National School Lunch Program, School Breakfast Program, and Meal Supplements program as applicable.

| Cost Items | Total Cost | Cost Allocation by Reimbursable Program Type | | | Reported Costs by Line Item |
|---|---|---|---|---|---|
| | | Breakfast 21% | Lunch 42% | Supplements 10% | |
| Total Purchased Food | $400 | $ 84 | $168 | $ 40 | $ 292 (Item 23) |
| Total Labor | $200 | $ 42 | $ 84 | $ 20 | $ 146 (Item 24) |
| Total Supplies and Purchased Services | $100 | $ 21 | $ 42 | $ 10 | $ 73 (Item 25) |
| Total Equipment Depreciation | $100 | $ 21 | $ 42 | $ 10 | $ 73 (Item 25) |
| Total Cost for Food Services | $800 | $168 | $336 | $ 80 | $ 584 (Item 26) |